

Message Text

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TAGS: ETRD EC

SUBJECT: US-EC CONSULATIONS: TRADE ISSUES

1. SUMMARY HIGHLIGHTS OF TRADE DISCUSSIONS PROVIDED SEPTEL. FOLLOWING REPORTS TREATMENT OF TRADE ISSUES IN GREATER DETAIL. AT TRADING WORKING GROUP (TWG) GALLAGHER, FIELDING AND RABOT IN TURN ACTED AS SPOKEMAN FOR EC. BARRACLOUGH OF STATE AND WOLFF OF STR LED DISCUSSION FOR US SIDE. ISSUES WERE SUMMED UP BY GUNDELACH AND DENT IN S COND PLENARY. PRINCIPAL RESULTS WERE RECOMMITTMENT TO 1977 MTN CONCLUSION DATE, AGREEMENT TO HOLD STEEL TALKS MID-NOVEMBER AND CALM REVIEW OF CONTENTIOUS BILATERAL ISSUES (E.G. US STEEL VAT COURT CASE AND PROPOSED EC VEGETABLE OIL TAX).

2. MTN. US SIDE SAID US WITHOUT EXPECTING MIRACLES TAKES SERIOUSLY NEED FOR EARLY CONCLUSION TO MTN. WE MUST SHOW MARKED PROGRESS DURING 1977 AND ESPECIALLY INSURE THAT SUBSIDY/CVD AGREEMENT CONCLUDED IN TIME FOR CONGRESS TO ACT BEFORE CVD WAIVER RUNS OUT IN 1978. ALSO OUR ABILITY TO USE THE MTN AS SHIELD TO FEND OFF PROTECTIONIST PRESSURES WILL EVENTUALLY WEAR THIN IN ABSENCE OF CONCRETE ACHIEVEMENT. BOTH SIDES NOTED THAT WITH ALL TARIFF FORMULAS NOW TABLED IN GENEVA NEGOTIATIONS CAN MOVE AHEAD. IN PLENARY GUNDELACH ENDORSED GIVING NEW LIFE TO NEGOTIATIONS IN 1977. GUNDELACH ADDED IN PRESS CONFERENCE MTN CONCLUSION IN 1977 ABSOLUTELY ESSENTIAL. US SIDE PROMISED EARLY RESPONSE ON AD REFERENDUM AGREEMENT ON PROCEDURES FOR HANDLING BILATERAL CONSULTATIONS IN GROUP AGRICULTURE. IN TWG, EC SAID DECISION ON MTN MINISTERIAL NEXT SPRING AWAITING MEMBER STATE APPRAISAL OF NEW US ADMINISTRATION AFTER ELECTIONS BUT COULD BE AGREED BEFORE END OF YEAR. WOLFF COUNTERED THAT HE DOUBTED THERE WOULD BE ANY MAJOR CHANGES IN US TRADE POLICY.

3. LDC TRADE. BOTH SIDES AGREED ON NEED TO AVOID COMPETING FOR FAVOR OF LDCE. EC SIDE ANNOUNCED ITS INTENTION TO IMPLEMENT ITS TROPICAL PRODUCT OFFER ON JANUARY 1. EC WILL CONSIDER THESE NEGOTIATIONS ENDED LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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FOR ITS PART ALTHOUGH IT EXPECTS GROUP WILL CONTINUE. US REPEATED NEED FOR LDC CONTRIBUTION FOR ITS TP OFFER AND INTEREST IN CONTINUING TP NEGOTIATIONS TO THAT END. EC ADMITTED IT COULD ENVISION MAKING ADDITIONAL CONCESSION IF LDCE MADE OFFERS.

4. FRAMEWORK GROUP. US EXPRESSED ITS CONCERN THAT GROUP WILL END UP WITH OPEN TERMS OF REFERENCE WHICH IT BELIEVES IS NEITHER IN US OR EC INTEREST. EC SIDE DOUBTED OPEN TERMS OF REFERENCE WERE THE LIKELY OUTCOME BUT REITERATED ITS OPPOSITION TO PUTTING DISPUTE SETTLEMENT ON AGENDA. US NOTED THAT SOMETHING

COULD PROBABLY BE WORKED OUT ON BALANCE OF PAYMENTS ISSUE AND THAT INCLUSION IN WORK PROGRAM IS SOMETHING US HAD TO WORK OUT WITH CANADIANS. GUNDELACH REPEATEDLY URGED IN STRONG TERMS IN PLENARY THAT DESPITE PROCEDURAL DIFFICULTIES WE SHOULD NOT LOSE SIGHT OF COMMON GOAL OF IMPROVING GATT.

5. MFA. SMITH (US) ARGUED CASE FOR EARLY RENEWAL WITHOUT SIGNIFICANT CHANGE. HE EXPRESSED SURPRISE EC MIGHT NOT HAVE POSITION FOR GATT MEETING NOVEMBER 30 WHERE MAJOR IMPORTERS SHOULD SIGNAL THEY UNITED ON SEEKING RENEWAL. EC EXPLAINED THAT SATISFACTORY NEGOTIATING MANDATE UNATTAINABLE AT THIS TIME. SOME MEMBER STATES AND INDUSTRY FIND PRESENT MFA UNACCEPTABLE AND BELIEVE IT MORE SUITED TO US INTERESTS. COMMISSION THEREFORE PREFERS WAIT FOR MOMENTUM TO BUILD FOR SUBSTANTIALLY UNCHANGED MFA AND COULD THEN JUMP ON BANDWAGON. BUT ANY EC MANDATE WOULD HAVE TO RECOGNIZE SOME AMENDMENTS WILL BE NECESSARY. US SIDE RESPONDED THAT US DOES NOT WANT TO PAY INCREASED PRICE FOR RENEWAL WHICH WILL BE DEMANDED BY LDCS IF THEY ACCEPT THE RESTRICTIONS SOME EC COUNTRIES HAVE IN MIND. GUNDELACH IN PLENARY AGREED TO KEEP MFA SEPARATE FROM MTN. HE EMPHASIZED NEED TO IMPROVE ADMINISTRATION OF MFA AND ASKED FOR US UNDERSTANDING OF COMMISSION'S NEED TO MOVE CAUTIOUSLY.

6. FLORENCE AGREEMENT. BARRACLOUGH SAID US BELIEVES THAT AMENDMENT PROPOSED BY EC FOR UPCOMING UNESCO MEETING IN NAIROBI WOULD DISTURB BALANCE OF BENEFITS LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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US EXPECTS TO RECEIVE UNDER AGREEMENT. LOERKE (EC) REPLIED THAT HE COULD NOT CONFIRM THAT EC WOULD OFFER AMENDMENT BUT AFFIRMED EC VIEW THAT IT NOT TRADE ISSUE SINCE PURPOSE OF AGREEMENT IS TO ENHANCE EDUCATION AND SCIENCE. IN ANY EVENT, HE SAID, COMMISSION IS EXPECTING US REQUEST FOR TECHNICAL TALKS. IT WAS AGREED THAT SUCH TALKS SHOULD TAKE PLACE EITHER BEFORE OR DURING NAIROBI MEETING.

7. WINE. BOTH SIDES EXPRESSED CONFIDENCE THAT PROBLEM WAS MANAGEABLE. US INDICATED SATISFACTION THAT DEROGATIONS BY EC ON CERTIFICATION WERE MEETING IMMEDIATE TRADE PROBLEMS BUT CONCERN THAT SOLUTION ONLY TEMPORARY. MOREOVER, MORE SERIOUS LABELING PROBLEMS REMAIN. BOTH SIDES AGREED TO HOLD TECHNICAL TALKS SOON, WHICH US SUGGESTED MIGHT BE FOLLOWED BY POLICY LEVEL DISCUSSION. FIELDING (EC) HOPED THAT US WOULD ADMINISTER ITS PROPOSED REGULATIONS SO AS NOT TO CONSTITUTE NEW TRADE BARRIER. HE ALSO ASKED WHETHER US WINE GALLON ASSESSMENT SYSTEM WOULD BE NEGOTIABLE IN MTN. US SAID IT WOULD BE.

8. STEEL. AMONG BILATERAL TRADE ISSUES EC PUT GREATEST STRESS ON STEEL VAT CASE AND REPEATEDLY EXPRESSED CONCERN OVER POSSIBLE SUSPENSION OF CUSTOMS APPRAISEMENT IF CUSTOMS COURT RULES FOR US STEEL. SUCHMAN (US) REVIEWED STATUS OF US STEEL AND ZENITH COURT CASES WHICH CONCERNED VAT, ONCLUDING IT IMPOSSIBLE TO PREDICT OUTCOME. US, HOWEVER, CONSIDERING ALTERNATIVES OPEN TO IT SHOULD DECISION BE ADVERSE TO ADMINISTRATION'S POSITION. FIELDING DESCRIBED "CRISIS" IN EC INDUSTRY WHICH NOW WORKING AT 65 PERCENT CAPACITY, WITH ORDER BOOKS DOWN TO ONE MONTH'S PRODUCTION AND EXPORT ORDERS DOWN 60 PERCENT FROM LAST YEAR. IMPORTS ARE UP MAINTLY FROM JAPAN. EC WILL SEEK ARRANGEMENT WITH JAPANESE GOVERNMENT IN CONSULTATIONS DURING FIRST HALF OF NOVEMBER SINCE CURRENT AGREEMENT WITH MAJOR JAPANESE PRODUCERS HAS FAILED. EC SIDE POINTED TO REPORTS US SPECIALTY STEEL INDUSTRY OFFERING CUT RATE SHIPMENTS INTO GERMANY. LOERKE PROMISED TO PROVIDE DOCUMENTS SHOWING 10,000 TON US SHIPMENT AT VERY LOW DISCOUNT PRICES. FIELDING ASKED IF US MIGHT ALLOW EC TO SWITCH ENTITLEMENTS UNDER LIMITED OFFICIAL USE
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SPECIALTY STEEL QUOTAS UNDER SPECIALTY TO ALLEVIATE PROBLEM CAUSED BY CLOSING OF PLATE AND TOOL STEEL QUOTAS. WOLFF REPLIED THAT ADMINISTERING QUOTAS VERY SEVERE PROBLEM AND RECOVERY OF US SPECIALTY STEEL SECTOR NOT AS GOOD AS EXPECTED BUT THERE MAY BE SOME FLEXIBILITY. WE THAN OFFERED 160 TON REALLOCATION TO TOOL STEEL CATEGORY TO SOLVE BEARING STEEL PROBLEM. WE SUGGESTED EC CONSIDER COMPREHENSIVE BILATERAL CONSULTATIONS ON STEEL. LATER, IN PLENARY GUNDELACH SAID HE APPRECIATED US SENSITIVITY TO IMPORTANCE OF STEEL VAT CASE AND ANNOUNCED THAT EC ACCEPTED NEED FOR FULLY COMPREHENSIVE CONSULTATIONS ON STEEL TO COVER SPECIFIC PROBLEMS WITH SPECIALTY STEEL QUOTAS AS WELL AS OVERALL SITUATION. IT WAS AGREED TO MEET IN MID-NOVEMBER IN BRUSSELS AT REASONABLY HIGH LEVEL.

9. US TRADE ACT. EC SIDE SAID IT APPRECIATED US ADMINISTRATION'S RESTRAINT IN RESISTING PROTECTIONIST PRESSURE IN SO MANY RECENT INSTANCES. CITING SHOES AND HAM CASES EC EXPRESSED FEAR, HOWEVER, THAT SOLUTIONS TO TRADE PROBLEMS MAY COME UNDONE. FIELDING FELT THAT SECTIONS 301 AND 337 CAUSED EUROPEAN BUSINESSMEN INCREASED UNCERTAINTIES AND ANXIETIES. WOLFF REPLIED THAT MANY PROVISIONS OF NEW LAW HAD ALREADY BEEN ON BOOKS PRIOR NEW TRADE ACT AND WOULD HAVE HAD TO BE ADMINISTERED MORE VIGOROUSLY IN ANY EVENT. US REAFFIRMED DESIRE TO MANAGE THESE PROBLEMS AS THEY ARISE INDICATING THAT UNLIKE COUNTERVAILING PROVISION SECTION 301 AND 337

ARE BROAD STATUTES DEALING MAINLY WITH PROCEDURES.

10. PHOSPHATES. EC SIDE CHARGED THAT CURRENT DIFFICULTIES OF EC FERTILIZER PRODUCERS NOT DUE TO NORMAL PLAY OF MARKET FORCES BUT PREDATORY PRICING BY US PHOSPHATE INDUSTRY. EC'S MAJOR CONCERN IS NO LONGER DUAL PRICING BUT RATHER EXAGGERATED DIFFERENCE BETWEEN ROCK PRICES AND FERTILIZER. ALTHOUGH IT SO FAR LACKS PROOF EC BELIEVES THERE IS PRICE COLLUSION BETWEEN US INDUSTRY AND MOROCCAN SHIPPERS. EC WISHES TO PRESERVE NORMAL TRADE AND AVOID SAFEGUARD ACTION. BARRACLOUGH NOTED THAT WE DO NOT INTERPRET ALL FACTS AS EC DOES BUT WISH TO CONTINUE EXCHANGE OF INFORMATION LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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AND VIEWS

11. GATT. EC SIDE REGRETTED FREQUENT US USE OF GATT WHICH STIFLED BILATERAL CONSULTATIONS. RABOT WAS SURPRISED US HAD CALLED FOR GATT CONSULTATIONS ON WHEAT FLOUR AFTER AGREEING TO INFORMAL TALKS AT LAST CONSULTATIONS. EC MAINTAINED IT RESORTED TO GATT OVER DISC BECAUSE OF ITS STRONG COMMERCIAL INTEREST, WHICH FIELDING THOUGHT US LACKED IN ITS CURRENT COMPLAINTS. US SIDE NOTED OUR NEED TO USE GATT TO DEMONSTRATE MOVEMENT AND DIFFUSE DOMESTIC PRESSURE. IN PLENARY GUNDELACH CRITICIZED US FOR OVERBURDENING GATT BUT ALSO MENTIONED PERSONAL VIEW THAT EC RATHER PARANOID IN ITS DISTRESS OVER ANY RESORT TO GATT MECHANISMS. DENT SAID GATT CASES GREW PRINCIPALLY OUT OF SECTION 301 COMPLAINTS AND THAT PERHAPS BOTH SIDES SHOULD REDEDICATE THEMSELVES TO HANDLING PROBLEMS BILATERALLY. BOTH SIDES SAID THEY FOUND GATT G-18 MEETINGS USEFUL AND AGREED THEY SHOULD BE CONTINUED FOR ONE YEAR.

12. AGRICULTURE. FIELDING CALMLY BUT POINTEDLY VOICED REGRET AT "SYSTEMATIC, IDEOLOGICAL ATTACK" BEING MOUNTED BY US AGAINST EC CAP. RABOT GENTLY NEEDLED US OVER INCREASE IN SUGAR TARIFF AND PL 480 TOBACCO SALES TO PORTUGAL. EC SIDE PROMISED TO LOOK INTO US CONCERNS ON HOPS SUBSIDIES AND TO OPPOSE ANY FRENCH DEMAND FOR MIP FOR PRUNES. RABOT ACKNOWLEDGED NFDM SCHEME WOULD PROBABLY NOT BE EXTENDED BUT NOTED WAY HAD TO BE FOUND TO END IT SO AS NOT TO REWARD SPECULATORS. HE MADE NO APOLOGIES FOR OIL SEED TAX PROPOSAL, SAYING IT HAD NOT BEEN DROPPED BY COMMISSION AND WOULD PROBABLY COME UP AGAIN NEXT YEAR. HE WENT ON TO SAY IT IS PRACTICALLY IMPOSSIBLE TO REFORM DAIRY SECTOR WITHOUT PARALLEL MEASURES ON OILSEEDS. US REITERATED ITS OPPOSITION. GUNDELACH ALSO TOLD PLENARY THAT HE DOUBTED TAX WOULD GO FORWARD SOON BUT REMARKED THAT US SOMETIMES FAILS

TO SEE CORRECT LINK BETWEEN ITS OVERALL INTERESTS AND
SPECIFIC ISSUES (I.E. US LONG TERM INTEREST IS IN
RATIONALIZATION OF EC DAIRY POLICY, WHICH MAY BE
OBSTRUCTED BY OUR OPPOSITION TO OILSEEDS TAX). IN TWG
SUCHMAN (US) NOTED THAT CORN/HOG RATIO HAS FALLEN TO
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13.7:1 AND SINCE IT BELOW LEVELS OF AGREEMENT IT WILL HAVE
TO BE RE-EXAMINED . GUNDELACH IN PLENARY REMARKED THAT
HE WOULD BE "VERY SORRY IF WRETCHED HAM CASE" WERE
REOPENED. KISSINGER

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